VZCZCXRO6129
PP RUEHROV
DE RUEHKH #2654/01 3171117
ZNR UUUUU ZZH
P 131117Z NOV 06
FM AMEMBASSY KHARTOUM
TO RUEHC/SECSTATE WASHDC PRIORITY 5191
RUEHBJ/AMEMBASSY BEIJING 0040
RUEHFT/AMCONSUL FRANKFURT 0060
RUEHTC/AMEMBASSY THE HAGUE 0032
RUEHCH/AMEMBASSY CHISINAU 0001
RUEHNE/AMEMBASSY NEW DELHI 0009
RUCNIAD/IGAD COLLECTIVE

UNCLAS SECTION 01 OF 03 KHARTOUM 002654

SIPDIS

SIPDIS
SENSITIVE

E.O. 12958: N/A
TAGS: PGOV PINR ECON EINV EPET ENRG ET KE GE CH SU
SUBJECT: OIL IN SOUTHERN SUDAN - THE STORY OF "CROOKS AND NANNIES"

¶1. (SBU) Summary: The history of oil exploitation in Sudan has been marked by northern domination, killings, displacement, community destruction, environmental degradation, arms purchases, and accusations of cheating on revenue sharing. To break with this legacy, the Government of Southern Sudan (GOSS) is working to establish an indigenous oil industry independent of Khartoum. Southern initiatives include exploration and production contracts, and ambitious plans for refineries and pipelines serving central and eastern Africa. Nile Petroleum Company (NilePet), the GOSS-owned oil company, has signed international production sharing agreements (IPSA) with British, German, Moldovan, Dutch, and Chinese companies. The GOSS believes a strong southern oil industry will help them enforce the wealth-sharing protocols of the Comprehensive Peace Agreement (CPA) and yield more transparency in the oil sector. The GoSS also hopes this will allow for either unity with the north on more equal terms or independance. End Summary.

¶2. (U) The November 1-4, 2006 visit to Juba of a USG-hired oil expert, Phil Garrison, and a member of the Sudan Programs Group (SPG), Pamela Fierst, provided an opportunity to meet with a wide spectrum of GOSS officials, civil society, and private oil sector members, and obtain extensive documentation on oil contracts in the South. (Note: All documents were provided to SPG Officer Fierst for Washington. End Note). As one speaker said in a Freudian slip at an oil conference in Juba that coincided with the visit, we must look at all the "crooks and nannies" to understand the oil situation in Sudan.

General Overview
----------------

¶3. (U) The GOSS has moved quickly to try to establish an independent oil industry that it asserts is consistent with the wealth-sharing provisions of the CPA. The GOSS-owned NilePet has signed at least five production sharing agreements for oil exploration, development and sales. These controversial contracts have created divisions within the GOSS over their legality, their lack of transparency, and their ramifications for CPA. Oil experts believe that Southern Sudan may cover one of the largest under-explored oil basins in the world. Southern Sudan and Abyei already account for more than 90 percent of Sudan's approximately 330,000 b/pd of current oil production.

¶4. (U) Sudan's current oil production is controlled by Khartoum and is dominated by three foreign oil companies, all state-owned -- the Chinese National Petroleum Company (CNPC), Petroliam Nasional Berhad (Petronas, Malaysia) and ONGC Videsh (India). According to a recent Wood Mackenzie report, Sudan is the largest overseas operation for all three of these companies.

¶5. (U) In addition to its production agreements, the GOSS has begun to explore prospects for a pipeline to "connect to the Kenya-Uganda pipeline somewhere in Uganda" and then transport refined oil to

Mombasa, according to one official. Others speak of building a pipeline to Matadi in the Democratic Republic of the Congo. The GOSS sees NilePet eventually supplying an African market which includes southern Sudan, parts of Ethiopia, Somalia, Kenya, Uganda, Northern Tanzania, Rwanda, Burundi, Eastern DRC and Central African Republic.

Southern Sudan Players
----------------------

¶6. (SBU) NilePet: NilePet was established in 2003 as a subsidiary of the "New Sudan Public Corporation," which was itself created by the "Civil Authority of the New Sudan" (CANS) under the Chairmanship of then-Vice Chairman of the SPLM, Dr. Riek Machar. The legal status of CANS is uncertain. NilePet was subsequently incorporated in Yei, southern Sudan in July 2004. NilePet's purpose was to facilitate the development of the mining industry of "New Sudan," including the petroleum industry, and to find partners with appropriate technical and financial resources. In 2004, the CANS awarded NilePet all unassigned blocks in southern Sudan. This includes the enormous superblock B, which Khartoum awarded to a Total-led consortium in 1980. The GOSS claims block B was available because the Total contract had expired and was not renewed until December 2004, after they had given the block to NilePet. NilePet's directors are Dr. Bullon Bol, a petroleum engineer; Kuol Manyang Juuk, Government of National Unity (GNU) Minister of Transportation; and Simon Kun Puoch, a current member of the National Petroleum Commission and Director of the South Sudan Relief and Rehabilitation Commission (SSRRC). Since the signing of the CPA in January 2005, NilePet has become wholly-owned by the GOSS.

¶7. (SBU) White Nile Limited (WNL): WNL is registered in the



Guernsey Islands and traded on the Alternative Investment Market (AIM) of the London Stock Exchange since February 2005. It owned equally by NilePet and the Central African Mining and Exploration Company (CAMAC). A "shell company," it acquired oil exploration rights from NilePet for Block Ba, a GOSS-created section of block B that Total believes has the greatest potential. WNL has no oil expertise or proven development capacity, but it may be able to deliver significant returns for the GOSS. NilePet's initial capital ownership share value of WNL was USD 27.9 mil the day before its WNL agreement went public; it reportedly jumped to USD 279 the day after.

¶8. (U) WNL and Total are currently in litigation in the UK over Block B, which Total continues to claim as part of a consortium which includes Marathon Inc. and Kuwait Petroleum. WNL asserts that its claim is based on the August 2004 CANS award to NilePet. Total was originally awarded Block B by Khartoum in 1980 but abandoned this huge area of savannah and marshland when war erupted in 1983. Total pulled out in 1984 following the killing of one of its workers but kept paying the north an annual fee to maintain its claim. Total then renewed its contract with Khartoum in December 2004, just before the signing of the CPA. While the CPA states existing oil contracts cannot be renegotiated, because the NilePet deal preceded the Total renewal, GoSS officials claim their deal is the valid existing contract.

¶9. (SBU) SET Energy Gmbh (SET)/Industrial and Financial Group ASCOM S.A. (ASCOM): SET is a German company headquartered in Hamburg, while ASCOM is a Moldovan company. This consortium signed an IPSA with NilePet on June 28, 2005, covering Block 5b, a block that Khartoum had previously assigned to a Petronas-led consortium. ASCOM has already brought in drilling rigs and other heavy equipment and has reportedly begun construction of an airstrip to access its block.

¶10. (SBU) Shaanxi Yan Chang Petroleum Group (SYC): SYC is a partnership between the Provincial Government of Shaanxi and Yan Chang International, Ltd (YCI), a Hong Kong-based company. NilePet signed an IPSA with SYC for block Bc, a GOSS-created sub-block on the southern edge of superblock B, in November 2005. SYS is also

preparing a feasibility study for the design, construction and operation of a 150,000 b/pd refinery in the south and is interested in the production of liquefied natural gas (LNG).

¶11. (SBU) Apex Petroleum N.V. (APEX) and Supex Petroleum N.V. (SUPEX): APEX and SUPEX, based in Curacao, each signed separate contracts with NilePet in 2005 for Blocks Dc and 7S respectively. These blocks were previously unassigned by the north.

¶12. (SBU) Taken together, Nilepet has already netted signing bonuses from these contracts totaling at least USD 25 million, the majority of which is purportedly being held in international banks. The contracts provide fairly generous terms for the GOSS over time, high quotas for training and employing southern Sudanese, large amounts of funding for community development projects, and strong environmental protections. The contracts also give the government of the producing states 7 percent of net revenues, more than the 2 percent provided for under the CPA.

¶13. Nevertheless, there are rumors and recriminations among senior SPLM members who want an accounting of the bonuses paid and more transparency in the deals. Many suspect Vice President Riek Machar, among others, of profiteering, although a key minister, albeit with reported ties to Machar, assured CG Juba officials that the bulk of the funds are banked. Several GOSS contacts have asserted that President Salva Kiir has ordered these contracts nullified, but there is no evidence that such an order has been carried out. The SPLM leadership says they have set up an investigative committee to get more answers on oil deals. Many in the party admit the deals lack transparency, but assert that the SPLM had the right to sign these contracts and say they want to handle the corruption issues internally.

## CPA Compliance: Blame to go Around

¶14. (SBU) The GOSS asserts that its contracts are legal under the CPA, as they cover areas controlled by the SPLM/A before January 2005 and not otherwise assigned (they did not recognize Total's continuing claim before the new contract in 2004). Other contracts, GOSS claims, are justified post-CPA as falling under the Interim Southern Sudan Constitution Article 183 (2) which allows for the "development and management of . . . petroleum development in



Southern Sudan in consultation with the relevant communities, within the overall framework of petroleum development during the interim period."

¶15. (SBU) The GOSS also argues that because NilePet was awarded all unassigned blocks in 2004, its agreement is an existing oil contract under the CPA and not subject to renegotiation or ratification by the National Petroleum Commission (NPC). The GOSS position is that it will, however, submit its contracts for review by the NPC to determine how much "profit oil" is available for division between the Government of National Unity, GOSS, and the Oil Producing States of Southern Sudan.

## USG Help Sought

¶16. (SBU) The GOSS is seeking USG technical assistance to help them develop policies and capacity to monitor existing northern oil contracts and participate fully in the NPC when it becomes operational. Southern officials question the usefulness and objectivity of a Norwegian oil advisor who consults with both Khartoum and the south. The Garrison/Fierst visit provided insight into potential areas of assistance that would be supportive of the CPA. There are growing concerns that oil could become the source of separation or renewed violence. A full trip report is being prepared by the USG oil expert for Washington's review.

HUME